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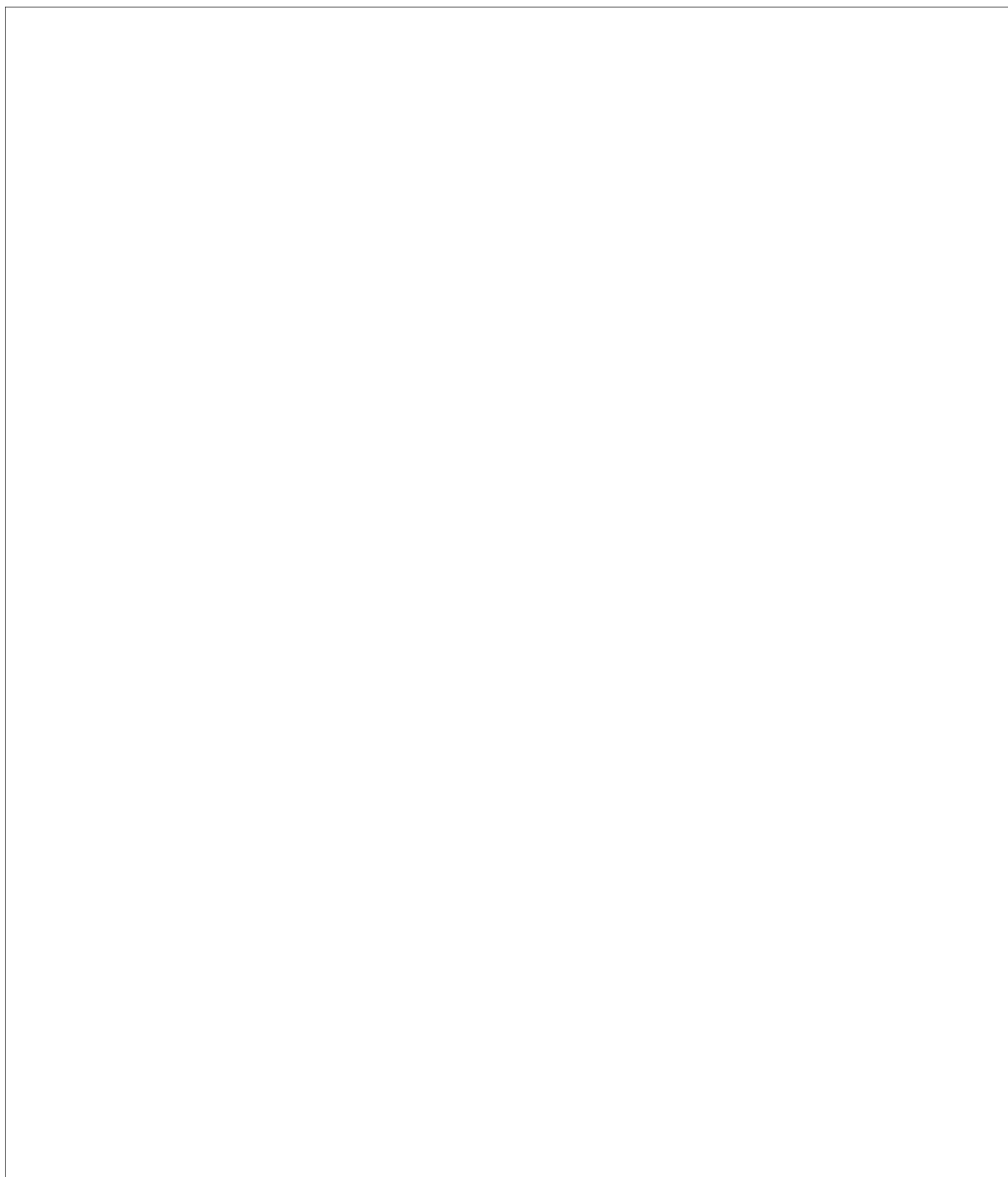
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JORDAN-PLO:

Hussein-Arafat Meeting

PLO Chairman Arafat and King Hussein apparently did not reach agreement on next steps in the peace process during their meeting in Amman on Monday.

[redacted] Hussein pressed Arafat to accept UN Resolutions 242 and 338 and to halt terrorism. The King also urged Arafat to exercise more control over the PLO and to cooperate more closely with Jordan in efforts to move toward negotiations with Israel. In return for Arafat's agreement on these points, Hussein reportedly offered to promise that Jordan would not enter separate negotiations with Israel or otherwise sidestep the PLO [redacted]

In a news interview, Arafat confirmed that discussions took place over the UN resolutions and the PLO's armed struggle. In the interview, Arafat railed against alleged US involvement in Israel's raid on the PLO headquarters in Tunis, but claimed the PLO would not attack US citizens. Arafat reportedly intends to leave Amman without again seeing Hussein. [redacted]

Comment: Hussein evidently did not secure explicit commitments from Arafat, but the King is not likely to view their meeting as a failure. He almost certainly anticipates that several meetings will be necessary to gauge the prospects for reaching an accommodation with Arafat. [redacted]

The King sees no alternative to working with the PLO in the interest of retaining credible Palestinian backing for his efforts toward negotiations with Israel. The PLO's involvement in recent terrorist incidents has deeply embarrassed Hussein, however, and he will continue to push tough conditions for partnership with the PLO in future talks. [redacted]

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SOUTH AFRICA: ANC-Zulu Feud

Zulu leaders probably will blame the United Democratic Front and the African National Congress for the assassination yesterday near Durban of a member of the Central Committee of Inkatha, the powerful Zulu group led by Chief Gatsha Buthelezi. Inkatha officials have charged the two groups with trying to eliminate their movement and have warned of rising violence. Inkatha last week accused the ANC of bombing its offices in Amsterdam; the ANC alleges Inkatha murdered United Democratic Front executive Victoria Mxenge in September.

Comment: The assassination of the Zulu leader probably will intensify the violence between Inkatha and the United Democratic Front, which Inkatha believes acts under orders from the ANC. If the feuding produces widespread violence, the government may extend the state of emergency to the Durban area—the only major population center not yet included.

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EC-MIDDLE EAST: Progress on Trade Agreement

EC members have tentatively agreed to propose reducing the tariffs on citrus fruit and other agricultural imports from 11 non-EC Mediterranean countries—including Morocco, Tunisia, and Israel—to preserve these nations' competitive position in the EC market after Spain and Portugal join the Community in January. The agreement, expected to be confirmed as formal policy by the EC Foreign Ministers late next month, will be the basis for renegotiating all the EC's preferential trade agreements with the Mediterranean countries.

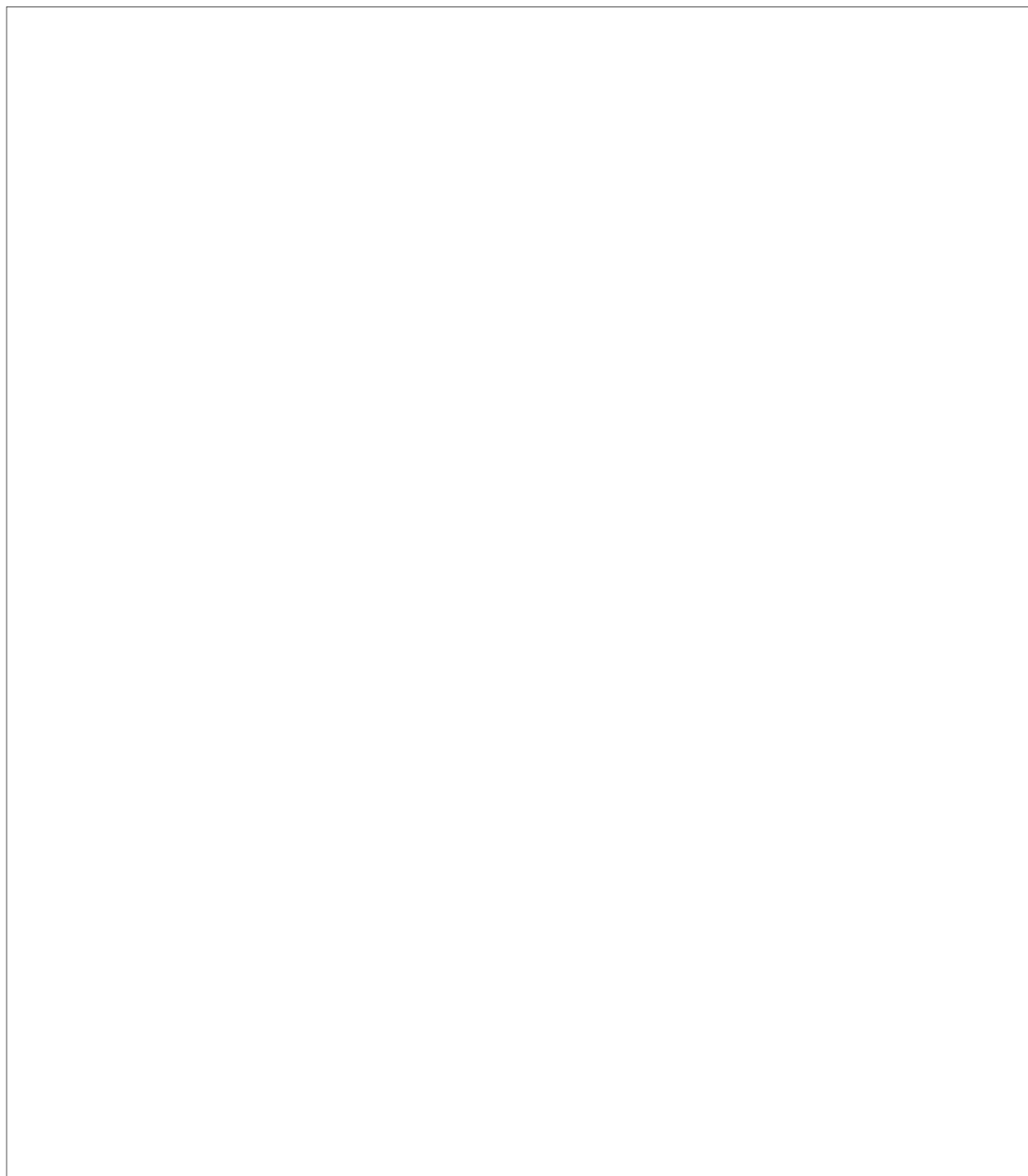
Comment: Despite a US deadline of 31 October for action, the EC probably will wait until the Mediterranean negotiations are nearly concluded before addressing the US complaint that the new preferential agreements will hurt US citrus exports to the EC. The negotiations with the Mediterranean states, which could begin late this year, are unlikely to be concluded before next spring. The EC has given preferential treatment to the Mediterranean countries since the 1970s, based on an EC political commitment to promote their economic development.

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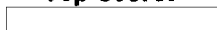
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INDIA: Possible Defense Reorganization

Prime Minister Gandhi, who assumed the defense portfolio in a Cabinet reorganization last month, appears to be considering measures that would streamline decisionmaking in the armed forces. In a recent speech to senior officers, he spoke about creating an "apex body to control national security."

Gandhi has now appointed a retired Army general to form a team to study the possibility of creating a joint chiefs of staff. Gandhi has also asked the three Indian service chiefs to appear more frequently at functions given by services other than their own.

Comment: Gandhi seems to be moving toward replacing India's extensive, civilian-controlled defense bureaucracy with a more integrated organization under a unified command structure. Such measures, combined with India's equipment modernization programs, would help create a more effective and modern Indian defense establishment.

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USSR-BULGARIA: Production of Robots

The USSR and Bulgaria signed an agreement in Sofia last week to establish two joint "scientific-production associations" for fabricating robots and computer-controlled manufacturing systems. During the next five years the associations are to produce 13,800 numerically controlled lathes, 28,000 industrial robots, and other kinds of manipulators. These machines will be produced for third-country markets as well as for Bulgaria and the USSR.

Comment: The Soviet-Bulgarian associations are similar to a Soviet-Czechoslovak robotics organization established last March, although it is not clear that the agreement with Bulgaria will require construction of new facilities. The agreement improves Soviet access to Western manufacturing technology licensed to Bulgaria and guarantees a market for Bulgarian robots and flexible manufacturing systems. The accord reflects Moscow's recent focus on economic integration through direct links between enterprises.

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KUWAIT: Financial Troubles

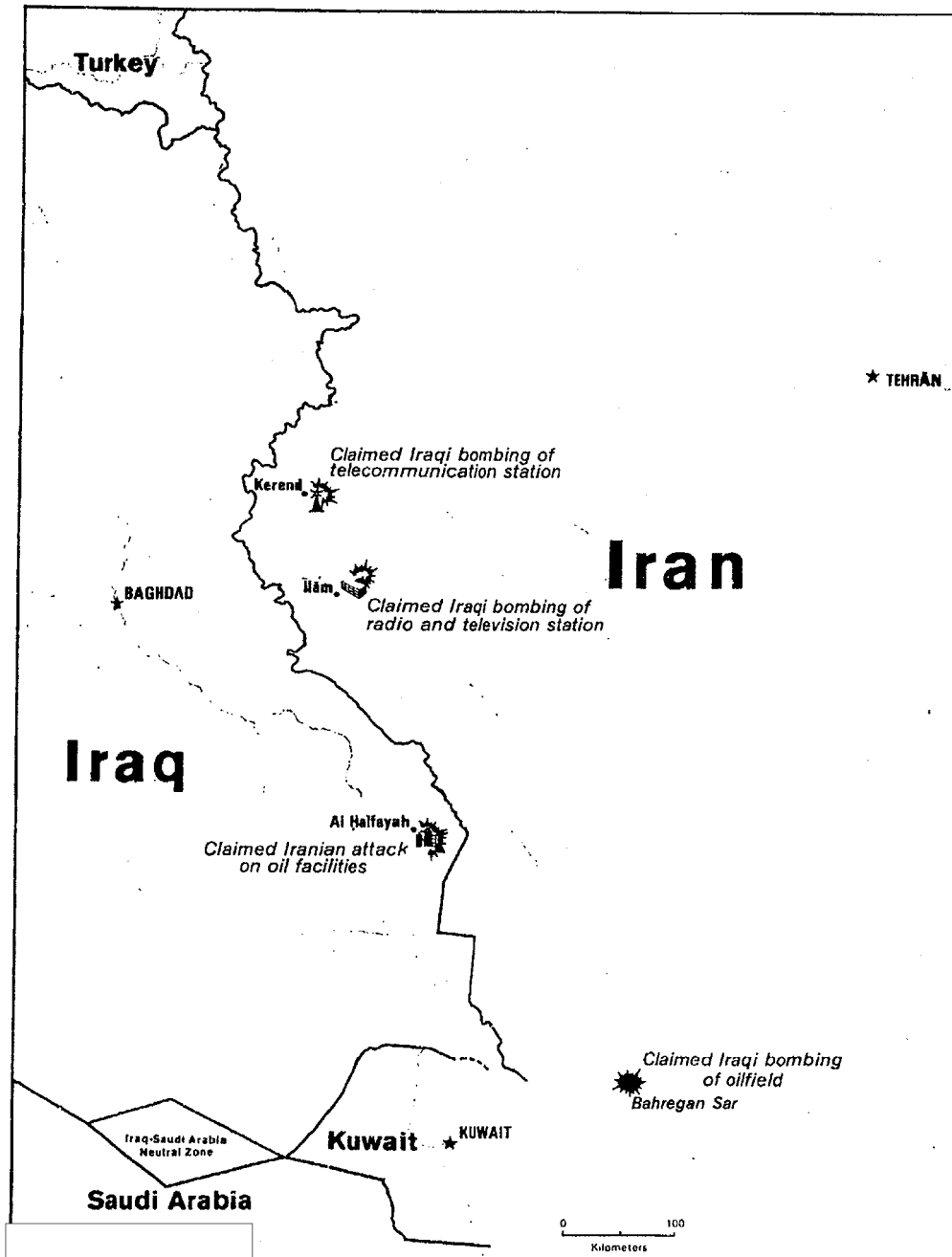
[redacted] the central bank of Kuwait is being sued by three US banks trying to recover \$13.5 million in loans made to the Abulhassan Foreign Exchange Company. The latter is one of Kuwait's largest moneychangers and one of many financial institutions still feeling the effects of the Kuwaiti stock market crash in 1982. The Kuwaiti Government has pledged that no financial institution will be allowed to fail, and the international financial community hopes the government's actions in the Abulhassan case will clarify the extent of its commitment to investment companies and foreign exchange dealers. [redacted]

Comment: Kuwait's handling of the company's debts—reportedly guaranteed by the government—has frustrated the US banks and they are encouraging the government to bail the company out. Whether or not the banks collect their loans—and the prospect is dim—they want to register their annoyance with the central bank over what could become precedent-setting policy. Kuwait has not yet defined its commitment to financial institutions other than banks, and appears to be helping only selected recipients. [redacted]

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in Brief

Middle East

- **Iraq** claims bombing radio and television and telecommunications stations, oilfield in **Iran** yesterday . . . Baghdad denied Iranian reports of retaliatory attacks in southern Iraq . . . could portend another round of attacks on cities.

Africa

- **South Africa** to enlarge national police force by 11,000 to 55,000 to increase nonwhite police in townships . . . claims no trouble recruiting nonwhites, now half of force . . . new black "municipal" police units also planned.

Europe

- **Portuguese** Social Democrat Cavaco Silva will head minority government to be sworn in next week . . . Cabinet likely to consist of right-of-center militants, technocrats . . . economic problems, presidential election in January likely to preoccupy government.

- According to press, **Italian** coalition made progress toward resolving government crisis . . . policy declaration promising better consultation, less pro-Arab Middle East policy likely . . . Craxi could seek vote of confidence by Monday.

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Americas

- **Colombia** has asked IMF to delay evaluation of economic adjustment program until 1986 . . . [] President Betancur embarrassed by leaked IMF document urging tougher austerity . . . delay likely to hinder negotiation of debt package.

South Asia

- **Indian** Prime Minister Gandhi plans public address in New Delhi tomorrow, anniversary of his mother's assassination, despite security concerns . . . Sikh extremists plan march to Punjab capital to honor Indira's assassins. []

USSR

- [] **Soviets** were developing antisubmarine wake-homing torpedo in late 1970s . . . probably have deployed antiship version . . . if difficult tracking problems are overcome, more effective antisubmarine torpedo may be deployed by 1990. []

East Asia

- **Chinese** demands for lower price on generators for first nuclear power plant caused **UK** firm to walk out of talks . . . also pressing **France** to cut reactor prices . . . suggests costs forcing Beijing to delay nuclear power. []

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Special Analysis

EL SALVADOR:

Effects of the Kidnaping

President Duarte has been hurt politically by his handling of the negotiations to secure his daughter's release and will feel compelled to retake the political initiative quickly and to demonstrate that his government still holds the military advantage against the rebels. Insurgent leaders are likely to try to build on what they see as recent successes by launching dramatic terrorist attacks. Duarte hopes his trip to the US this week will produce not only increased economic and military assistance but ringing endorsements of him and his government.

Duarte has won credit for striking a deal that included the release of the hostage mayors as well as his daughter. He has also come in for considerable criticism for being too involved in the negotiations, too willing to sacrifice the national interest for personal reasons, and for setting a precedent that may encourage further kidnapings. Criticism has been particularly strong from the rightwing parties and press, as well as from some military commanders.

Challenges for Duarte

The damage to Duarte's standing as a political leader and the general impression that the rebels have stymied government military operations will be most troubling to Duarte in the near term. the kidnaping brought the government to a near standstill and deflected attention from other pressing problems, including the economy.

Duarte will have to mend his relations with the military.

Duarte is planning to create a National Security Council—whose composition and functions remain unclear—to help overcome differences between military and civilian groups charged with conducting the anti-insurgency effort.

The kidnaping last Saturday of a senior Air Force officer can only intensify military frustration and increase demands for a strong military response. At the same time, the military will be watching to see whether Duarte gives as much attention to this case as he did to his daughter's.

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Insurgent Perspective

The insurgents clearly see recent events—including their attack on 10 October on the military training center—as strengthening their prospects. They believe the kidnaping highlighted the vulnerability of the regime, renewed attention to El Salvador's checkered human rights record, created conflict between Duarte and the military, and reinforced the rebels' claims that they are still a force to be reckoned with. [REDACTED]

Nonetheless, the kidnaping has brought the insurgents adverse international publicity. It has also caused internal dissension between the political and military wings of the rebel alliance and among military factions over the wisdom of such tactics. [REDACTED]

Outlook

Duarte probably will continue to express willingness to resume the dialogue with the rebels, but for the immediate future he will be more concerned with proving that he is in charge politically and ready to strike hard at them. [REDACTED]

[REDACTED] Any action on the economic front will take a backseat to more urgent military and political priorities. [REDACTED]

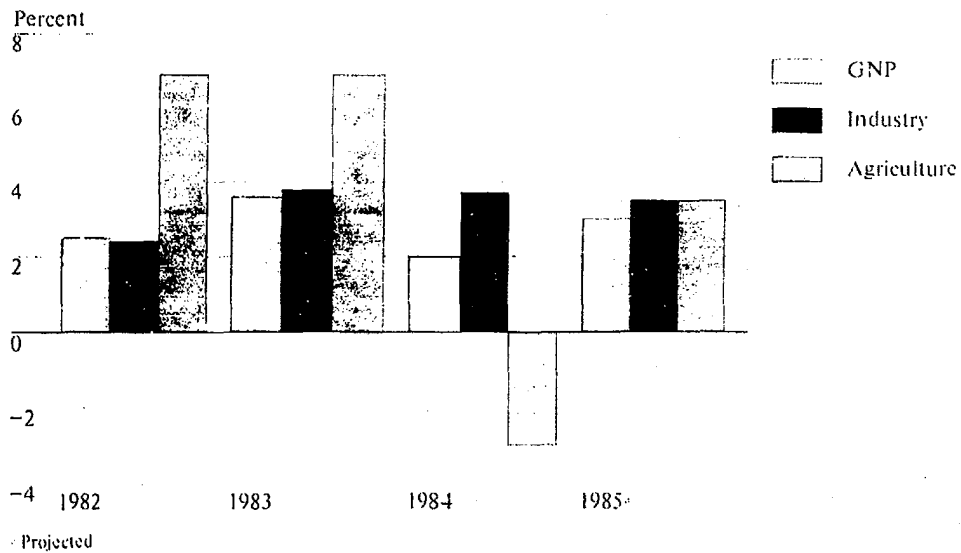
The Insurgents' increased visibility aside, they still do not have the ability to sustain a prolonged military campaign. Nevertheless, the rebels are buoyed by what they see as recent successes, and they almost certainly will continue their hit-and-run attacks in the countryside and stage more frequent terrorist attacks in the cities. From their viewpoint, keeping their cause in the public eye probably outweighs international criticism of their tactics. The insurgents already have declared their intention to strike at US personnel, particularly military and intelligence officers, and are likely to accelerate such planning. [REDACTED]

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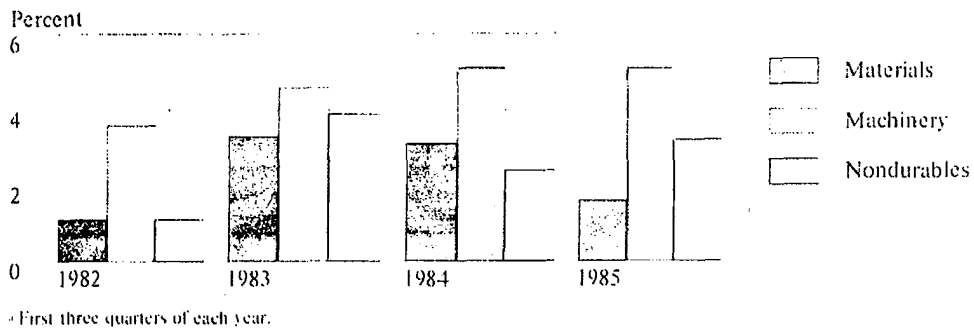
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USSR: Economic Growth, 1982-85



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USSR: Growth in Component Sectors of Industrial Production, 1982-85*



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Special Analysis

USSR: Improved Economic Outlook

Soviet economic performance for the first three quarters suggests that GNP may grow by 3 percent in 1985, paced by farm output rebounding from last year's drought and by strong production in civilian industrial machinery.

The USSR appears headed for a 200-million-ton grain crop—the best since the record 237 million tons produced in 1978. Production of forage will reach an alltime high, setting the stage for further growth in meat and milk production. Meat output this year is likely to increase by nearly 2 percent.

Such a harvest would reduce Moscow's need for imported grain—including purchases from the US—to 25-30 million tons during the current July-June marketing year, about half as much as last year's record 53-million-ton purchases. The USSR would save as much as \$2.5-3 billion in hard currency, partly offsetting the decline this year in hard currency earnings.

Industrial Growth Improving

Industrial production is likely to expand by about 3.5 percent in 1985—close to the strong pace of 1983-84.

Production of **civilian machinery**—about one-third of industrial output—increased by more than 5 percent over the same period last year. There was healthy growth in machine tools, automation equipment, and equipment for the chemical and petroleum industries. The Soviets still are withholding statistics for poorer performing categories such as transport equipment. Growth in production of robots has slowed considerably from its former very rapid pace, perhaps reflecting Soviet problems with the industrial application of robots.

The production of **industrial materials**—still recovering from setbacks caused by a harsh winter—grew slowly. Output of steel and oil are still below last year's levels, and oil supply problems have contributed to slow growth in chemical output.

The weak recovery in industrial materials production probably would have been worse without the rebound in rail transportation from the severe tieups experienced last winter—some 80 percent of nonenergy industrial materials are carried by rail.

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The decline in oil output since mid-1984 will drive hard currency earnings down by an estimated \$3-4 billion. Large hard currency reserves, however, will cushion Moscow's adjustment to reduced earnings, at least over the next year. [redacted]

Nondurable goods for the consumer showed improved growth. Nevertheless, textile production, although increasing, does not seem to be meeting plans. There were problems with linen, wool, and silk, probably stemming from inadequate increases in raw material supplies to these industries. [redacted]

The food industry also increased its output. Milk production is doing well, but problems continue in vegetable oil production. Soviet reporting made special mention of a one-third reduction in output of wine and vodka, while touting a 25-percent rise in production of nonalcoholic drinks. [redacted]

Early Successes for Gorbachev

General Secretary Gorbachev has not been in power long enough to restructure the economy or to install more effective industrial machinery and production processes. Nevertheless, he should be able to claim that some of his early initiatives are starting to pay dividends.

- Wholesale changes in management personnel and public prosecution of corruption may be reducing mismanagement and fraud.
- Renewed emphasis on labor discipline, use of pay incentives, announcement of the consumer goods program, and the anti-alcohol campaign may be encouraging labor to work more effectively during normal working hours. [redacted]

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Special Analysis

NETHERLANDS: Prospects for INF

The Netherlands Government is apparently resigned to endorsing INF deployment on Friday, the announced date for a decision, although The Hague probably will be forced to attach conditions that make the Dutch commitment less firm than those of other basing countries. Even with a positive decision by the Cabinet, prospects for eventual deployment are subject to two more debates—parliamentary arguments on ratification early next year and bargaining on INF among potential coalition partners following the election due by May. Christian Democratic unity could quickly dissolve under opposition pressure for the Netherlands to get more control over cruise missiles there and to cancel their deployment decision if the Soviets were to reduce their SS-20 force.

Prime Minister Lubbers remains under pressure to postpone a decision until at least after the meeting between President Reagan and General Secretary Gorbachev. Last weekend he was also presented with an anti-INF petition signed by almost 3.7 million Dutch people. Nevertheless, Lubbers realizes his credibility and the Netherlands' standing in NATO will suffer unless The Hague makes a positive decision this Friday on deployment.

Only a consensus among Christian Democrats Lubbers, Foreign Minister van den Broek, and Defense Minister de Ruiter makes action on INF possible. De Ruiter continues to have qualms about nuclear weapons, and a last-minute Soviet offer to reduce SS-20s to the 378 total the Dutch have set as their principal criterion could still force a delay.

The Politics of Ratification

The Cabinet's decision on 1 November may prove easier than getting parliamentary ratification of the US-Dutch basing agreement without crippling amendments. Although Lubbers's Christian Democratic-Liberal government has a nominal majority of 79 of the 150 seats in the Second Chamber, a handful of leftwing dissident Christian Democrats holds the balance of power on INF.

Opposition spokesmen will claim in the parliamentary debate that INF deployment is unconstitutional in the absence of Dutch veto power over firing the missiles and that they will demand the right to reverse a decision to deploy should Moscow reduce its SS-20 force. Such an approach would be designed to induce de Ruiter to break ranks with his colleagues.

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Questions of trading current Dutch NATO nuclear tasks for INF may also trouble the government, as Lubbers looks for parliamentary bargaining chips. The Netherlands now has six nuclear tasks, but NATO already has agreed to drop two—atomic demolition munitions and Nike-Hercules missiles. Christian Democrats probably will insist that the government eventually drop two additional tasks—basing nuclear-capable F-16s and Orion antisubmarine aircraft—in exchange for the acceptance of ground-launched cruise missiles.

Because the Prime Minister almost certainly places party unity before INF deployment and wants to complete the ratification as far in advance of the election next May as possible, he will be tempted to make concessions to win votes.

To the Election—and Beyond

The lengthy gap between a political decision to accept INF and actual emplacement of cruise missiles—which is scheduled for December 1986, but which Dutch officials claim will not occur until 1988—raises additional doubts about the ultimate success of basing in the Netherlands. A new government will preside over deployment, and polls show the Christian Democrats and Liberals will be hard pressed to retain their parliamentary majority.

Christian Democratic leaders insist that a Labor-led coalition would have great difficulty reneging on a US-Dutch basing accord, and polls show voters split about whether a new cabinet should do so. But intense anti-INF sentiment in the Labor Party makes it likely that a Labor-dominated government would at a minimum demand renegotiating the control of cruise missiles and reviewing any deployment decision in the light of Soviet arms control offers. The Christian Democrats' past weakness raises doubts about how firmly or effectively they would resist such demands in postelection bargaining.

Deployment, therefore, will probably depend ultimately on the ability of the Christian Democrats and Liberals to stage a comeback by next spring. Failing that, Lubbers would have to make a deal on INF with several small parties after the election—a highly uncertain prospect.

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